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SUBJECT: ROK, CHINA EYE EXPANDED AIR LINKS WITH MONGOLIA

Reftel A: 07 ULAANBAATAR 257
B: 05 ULAANBAATAR 081
C: 07 ULAANBAATAR 297

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¶1. (SBU) SUMMARY: During a February 13 courtesy call on the Ambassador, the new CEO of Mongolia-based EZnis Airways revealed that the South Korean Government and China's Civil Aviation Authority have made informal inquiries to the Mongolian Government regarding the possible expansion of air services agreements with Mongolia. Glenn Pickard noted that although current bilateral agreements allow for one carrier from each country to fly to the other, the ROK and China are interested in expanding the agreements to include two air carriers from each country. So far, the Mongolian Government has been latently hostile to the idea, viewing increased competition as a threat to its national carrier, MIAT. If the air service agreements were expanded and EZnis were to be awarded these valuable international routes, it would need to expand its short-range fleet to include jet aircraft, generating a possible business opportunity for Boeing. Pickard also revealed that EZnis' key domestic rival, Aero Mongolia, is experiencing financial and insurance difficulties. END SUMMARY.

¶2. (SBU) The Ambassador met on February 13 with Glenn Pickard, the new CEO of EZnis Airways (reftel A) and B.Enkhbat, the company's Commercial VP. Pickard revealed that there has been informal interest expressed by the South Korean Government, and separately by China's CAA, to liberalize air traffic between Mongolia and the two countries. In place of the current bilateral agreements, which allow for just one carrier from each country to fly to the other, an expanded agreement would permit two carriers from each country to make the same trip. If such a change is made, Korean Air and Asiana, for instance, could fly between Ulaanbaatar and Seoul, and in return MIAT and (most likely) EZnis could fly the same route.

Increasing Demand, Limited Seats

¶3. (SBU) While not exactly an Open Skies Agreement, this liberalization could benefit both sides by increasing competition and passenger loads between Mongolia and Korea. Enkhbat noted that some 30,000 Koreans fly to Mongolia every year, and that demand is growing. Enkhbat indicated that Asiana Airlines is chomping at the bit to launch service to Mongolia. The limited number of seats and the relatively high demand has allowed KAL to charge excessive prices for this route, and it has become a big money-maker for that airline. Profit margins would remain large, he said, even with the introduction of two new airlines servicing the route.

GOM Suspicious of Liberalization

¶4. (SBU) EZnis, for its part, fears that the GOM will try to block or stall any such expansion agreement, in a misplaced attempt to protect MIAT from increased competition. Pickard noted that the General Director of Mongolia's Civil Aviation Authority, S. Batmunkh, said as much when they recently discussed the subject. Transport Minister Rash has apparently expressed similar sentiments.

(Note: This protectionist stance has characterized the GOM's unwillingness to join any open skies agreement. End Note.) Unsurprisingly, plans to privatize MIAT, which have gone nowhere for five years, have slipped once again as June 2008 parliamentary elections approach and the GOM fears that increased competition could hurt MIAT's sale price. EZnis has already positioned itself as MIAT's most likely buyer once it becomes privatized. However, MCAA DG Batmunkh recently told Econoff that the GOM expects to retain at least 40% of the airline after privatization.

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¶5. (SBU) Pickard said that over the coming six to seven months he envisions EZnis struggling with the GOM and MIAT to convince them that this agreement would be win-win-win, and that new agreements could be tailored (for instance, with limited landing slots) to address GOM concerns. EZnis hoped that the USG would convey this message to our contacts within the GOM, or at least continue with our traditional advocacy of open skies. Pickard admitted that, even without GOM opposition, negotiating such an agreement might take a year or more.

Opportunities for Boeing?

¶6. (SBU) If EZnis were to start flying to Seoul or Beijing, it would need to expand its current fleet of three Saab 340B propeller aircraft to include larger jet aircraft. This could produce new business opportunities for Boeing. Pickard noted EZnis' interest in obtaining one or more 737-800's. (Note: Econoff provided contact information for Boeing's Asia Pacific Sales Manager after the meeting. End Note.)

¶7. (SBU) Then, offering their thoughts on EZnis' domestic competition, Pickard and Enkhbat said MIAT's one domestic aircraft, an Antonov 26, would reach its flight-hour limit by late spring, and that MIAT lacks the US\$400,000 needed for necessary overhauls to keep it flying for another 18 months or so. (Note: In 2005, safety concerns prompted the Embassy to prohibit USG personnel from flying MIAT domestically; reftel B.)

Aero Mongolia Difficulties

¶8. (SBU) Another Mongolian airline, Aero Mongolia, recently had its suspension lifted by MCAA (reftel C) and one of its aircraft is operating. The leasers of a second aircraft originally held up delivery from Germany (where it underwent a C-check) because the company had not paid its bills. Aero Mongolia finally came up with the money and the plane was only recently released for service. Pickard said, without providing details, that Aero Mongolia has been blacklisted by Lloyds of London for payment and safety violations, and that it is now insured by a Russian company. We plan to follow

up with Aero Mongolia later this week.

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